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SUBJECT: CEP: MEETINGS OF THE PETROLEUM PLANNING
COMMITTEE (PPC) WORKING GROUP AND OF THE AD HOC STUDY
GROUP ON THE ALLIANCE AND THE PROBLEMS OF OIL SUPPLY

REFS: (A) USNATO 5743, DTG 061714Z JUN 78
(B) STATE 151350, DTG 142154Z JUN 78
(C) STATE 163990, DTG 272358Z JUN 78

1. PPC WORKING GROUP MEETING

AGENDA ITEM I -- DEVELOPMENT OF FURTHER FLEXIBLE NATO
ARRANGEMENTS.

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REFERENCE DOCUMENT(AC/12-WP/126 REVISED) DOES NOT TAKE
SUFFICIENT ACCOUNT OF SEVERAL REALITIES INVOLVED IN
INTERNATIONAL ENERGY AGENCY (IEA)/NATO COORDINATION:

--IEA IS A PEACETIME EMERGENCY PROGRAM WHOSE PURPOSE
DIFFERS FROM NATO'S. PARAGRAPH 3 OF THE DOCUMENT DOES
NOT ACCURATELY REFLECT THE WORKING OF THE IEA EMERGENCY
SYSTEM. FOR EXAMPLE, IT MAKES NO REFERENCE TO THE
REQUIREMENT THAT MEMBER COUNTRIES MAINTAIN EMERGENCY

RESERVES EQUIVALENT TO 20 DAYS OF IMPORTS (RISING TO 90 DAYS IN 1980). IN ADDITION IT IS A 7 PERCENT NOT A 10 PERCENT SUPPLY CUT WHICH TRIGGERS THE 7 PERCENT DEMAND RESTRAINT REQUIREMENT.

-- THE IEA DEVELOPMENT AND MAINTENANCE OF THE INTERNATIONAL ENERGY PROGRAM (IEP) EMERGENCY ALLOCATION SYSTEM REQUIRES CONSIDERABLE HUMAN AND TECHNICAL RESOURCES FROM THE PRIVATE SECTOR, GOVERNMENTS, AND THE NATO INTERNATIONAL STAFF. UNLESS NATO (SPECIFICALLY THE PPC FOR THE COMPREHENSIVE PLANNING REQUIRED AND THE NATO OIL CRISIS CONTINGENT (NOCC) FOR THE COMPLEX OPERATIONS INVOLVED) DUPLICATED THE IEP SYSTEM, IT COULD NOT, AS PER PARAGRAPH 8, "RUN IN PARALLEL" WITH IEA. FOR THE SAME REASON, FOR THE NOCC "GRADUALLY TO TAKE OVER FROM IEA" IS A CONCEPT DIFFICULT TO ENVISAGE, EXCEPT IN THE CASE OF A PEACETIME SUPPLY INTERRUPTION WHICH ULTIMATELY WAS FOLLOWED BY ACTUAL WARTIME CONDITIONS. FURTHERMORE, SIGNIFICANT POLITICAL STRESSES WOULD UNDOUBTEDLY BE RAISED WITHIN THE IEA BY NON-NATO MEMBERS IN THE EVENT OF A NATO "TAKEOVER."

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PARAGRAPH 9 ALSO REFERS TO THE WORKING GROUP (WG) POSSIBLY CONCLUDING "THAT IT WOULD NOT BE FEASIBLE FOR THE NOCC TO DO MORE THAN MONITOR AND COMPLEMENT THE WORK OF THE IEA." IF "COMPLEMENT" MEANS A FORM OR LEVEL OF DUPLICATION, THE PROSPECTS APPEAR DIM BECAUSE OF THE SIGNIFICANT RESOURCE COMMITMENT NOTED ABOVE. PARAGRAPH 10, WHICH SUGGESTS NOCC AND IEA SHARING STAFF AND OTHER FACILITIES, IS ALSO AN UNLIKELY PROSPECT FOR POLITICAL AND OPERATIONAL REASONS.

-- A POSSIBLE CONSTRUCTIVE APPROACH FOR THE USG WOULD HAVE NATO CONTINUOUSLY MONITOR THE IEP. THIS AT LEAST WOULD PROVIDE NATO A FOREWARNING AS TO ANY ACTIONS BEING CONTEMPLATED -- OR TAKEN -- WHICH MIGHT AFFECT ITS CEP PLANNING AND PROGRAMS. DISCUSSIONS WITHIN NATO, AND THEN PERHAPS WITH IEA OFFICIALS, COULD BE INITIATED AS REQUIRED ON AN AD HOC BASIS. SUCH MONITORING COULD BE CONDUCTED BY A MEMBER OF BOTH INTERNATIONAL GROUPS, WHICH WOULD KEEP NATO INFORMED. THE TECHNICAL AND POLITICAL IMPLICATIONS OF DIRECT NATO-IEA DISCUSSIONS WILL HAVE TO BE CONSIDERED CAREFULLY BEFORE INITIATING ANY DISCUSSIONS, HOWEVER.

--RE PARAS 14, 15 AND 16, THERE DOES NOT SEEM TO BE AN OVERRIDING REASON TO ESTABLISH A WEST BRANCH OF NOCC, PARTICULARLY IN VIEW OF THE FACT THAT IEA

HEADQUARTERS IS IN PARIS. THEREFORE, THE US REP
SHOULD OPPOSE WEST BRANCH, WITHOUT SEEING OVERLY
NEGATIVE. IF, ON THE OTHER HAND, THERE IS BROAD
AGREEMENT IN THE WG THAT A WEST BRANCH IS NEEDED,
THE US REP SHOULD TRY TO DEVELOP A RATIONALE FOR
IT, WITH PARTICULAR EMPHASIS ON THE ROLE THAT THE
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WEST BRANCH WOULD PLAY AND HOW IT WOULD COORDINATE
WITH THE EAST BRANCH.

-- THE MANNING PROBLEM FOR THE NOCC, RECOGNIZED IN
PARAGRAPH 17 AND IN (B) ABOVE, WOULD INDICATE THAT
A POSITIVE DECISION THAT WOULD LEAD TO A DUAL
STAFFING OPERATION SHOULD BE AVOIDED THROUGH CAREFUL
CONSIDERATION OF ALTERNATIVES.

-- THE LAST SENTENCE IN PARAGRAPH 18, REGARDING
COORDINATION BETWEEN OIL AND SHIPPING EXPERTS,
IS THE KEY TO WHETHER OR NOT PBOS DEVELOPS PLANS
FOR COORDINATING THE TANKER SIDE OF THE COT, THROUGH
THE TANKER SIDE OF NOCC, IN ADVANCE OF ESTABLISHMENT
OF THE DSA. AS LONG AS PBOS AND OTHER NCWA ENTITIES
WORK CLOSELY WITH THE MARINE DEPARTMENTS OF THE
OIL COMPANIES AND WITH INDEPENDENT TANKER OWNERS,
OPERATIONS CAN BE MONITORED WITHOUT CREATING
ADDITIONAL STAFFING PROBLEMS. THE US REP SHOULD
SEE WHETHER THESE COMMENTS COULD APPLY TO PPC
WG AGENDA ITEM II DOCUMENTS TO BE DISTRIBUTED
(PBOS/LCM-78/5 AND AC/271-D/235).

AGENDA ITEM III -- ARRANGEMENTS FOR THE NATO WARTIME
OIL ORGANIZATION (NWOO).

-- STAFFING LIST: REQUIRES FOLLOW-UP ON AGREED
CHANGES.

-- COMMUNICATIONS: US REP SHOULD ASCERTAIN THAT MESSAGE
REDUCTIONS, AS PER US REP SUGGESTIONS AT APR 1978
PPC PLENARY, ARE TAKEN ACCOUNT OF IN DOCUMENTS TO
BE DISTRIBUTED.
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-- AR MANUAL SPECIFICATIONS: THE US REP SHOULD BE
AWARE THAT SINCE NWOO IS TO CONSIDER NATURAL GAS IN
ITS CEP ACTIVITIES, PLANS SHOULD BE DEVELOPED FOR
(1) COUNTERING NATO MEMBERS' GAS SUPPLY INTERRUPTIONS
FROM NON-NATO SUPPLIERS (USSR, ALGERIA) WHICH ARE

IMPORTANT TO NATO EUROPEAN MEMBERS (GERMANY, FRANCE, ITALY, THE NETHERLANDS), AND (2) FOR SOME FORM OF GAS, OR ALTERNATIVE ENERGY SOURCE, SHARING IN EVENT OF EMERGENCIES INVOLVING CUTOFFS OF NATO GAS SUPPLIES (FROM THE UK AND NORWEGIAN NORTH SEA AND THE NETHERLANDS) AND/OR FROM THE NON-NATO SOURCES. SPECIFICALLY, THE US REP SHOULD GET THE SUBGROUP'S REACTION TO THE NEED FOR (1) A NATO RESPONSE TO A SOVIET GAS CURTAILMENT; (2) THE NEED FOR

ASSURANCE THAT NATO SUPPLIERS (NORTH SEA OIL/GAS) WILL RESPOND -O EMERGENCIES; AND (3) LIAISON PLANS WITH IEP AS DISCUSSED IN PCC WG AGENDA ITEM (1).

2. AD HOC STUDY GROUP

AGENDA ITEM I -- DEMANDS FOR PETROLEUM PRODUCTS FOR DEFENSE NEEDS.

A. REPORT ON CIVIL REQUIREMENTS.

1. REFERENCE DRAFT REPORT PREPARED BY NETHERLANDS RAPPORTEUR:

-- PARA 19, WHICH WOULD REQUIRE MORE DATA REGARDING FUEL SUBSTITUTABILITY: US REP CAN ASSURE ALLIANCE SUBGROUP THAT CONSIDERABLE DATA ARE AVAILABLE REGARDING INTERCHANGING FUEL OILS, COAL FOR GAS
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FOR ELECTRIC POWER PRODUCTION, MANUFACTURING AND SOME HEATING ON THE NECESSARY SHORT-TERM BASIS, BOTH DIRECT AND INDIRECT SUBSTITUTION.

-- PARA 11: US REP SHOULD BE AWARE THAT OUR LOW USE OF NAPHTHA COMPARED WITH MOST OTHER NATO MEMBERS IS DUE MAINLY TO (1) HIGH PERCENTAGE OF IT WHICH IS UPGRADED INTO GASOLINE, AND (2) LOW USE FOR PETROCHEMICALS WHOSE BASE FEED STOCK HAS BEEN MAINLY NEUTRAL GAS (LPG). GREATER STRAIN ON US NAPHTHA SUPPLIES WILL DEVELOP AS NATURAL GAS PRODUCTION PLATEAUS AND PETROCHEMICAL NEEDS RISE. THUS, THE PERCENTAGE OF US NAPHTHA USE WILL RISE. EUROPEANS WILL MANUFACTURE MORE PETROCHEMICALS FROM NORTH SEA AND RUSSIAN GAS, WITH NAPHTHA USE POSSIBLY DECREASING.

-- PARA 13: AMONG THE REASONS FOR NATIONAL GASOLINE USE DIFFERENCES, IN THE FIRST FOUR SENTENCES, SHOULD BE ADDED DISTANCES WITHIN COUNTRIES. MUCH OF US (I.E., SOUTHWEST) IS DEPENDENT ON GASOLINE

FOR TRANSPORTATION, THUS LIMITING US FLEXIBILITY
IN REDUCING ESSENTIAL NEEDS FOR GASOLINE.

-- PARA 17: US RESIDUAL FUEL OIL CONSUMPTION
PERCENTAGE IS LOWER THAN EUROPE'S BECAUSE US HAS
HAD GAS/COAL/HYDROPOWER ALTERNATIVES. HENCE,
REFINERY YIELDS ARE 10-12 PERCENT OF THE BARREL
PROCESSED, COMPARED WITH EUROPE'S 40 PLUS PERCENT.
HOWEVER THE US EAST COAST MUST IMPORT 90 PERCENT
OF ITS REGULAR FUEL NEEDS. NO MAJOR CHANGE WILL TAKE
PLACE IN THIS POSITION IN THE NEAR TERM.

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-- US REP SHOULD BE AWARE THAT:

(1) US REFINERIES HAVE BEEN OPERATING AT 85-90 PERCENT
OF CAPACITY, A FIGURE WHICH MAY INCREASE, COMPARED
WITH NATO-EUROPE'S 50-60 PERCENT CAPACITY OPERATIONS,
A LEVEL WHICH IS UNLIKELY TO RISE MUCH FOR SEVERAL
YEARS. SIGNIFICANCE IS THAT THE US HAS LESS FLEXI-
BILITY THAN EUROPE TO MEET SHORT-TERM SUPPLY/DEMAND
CHANGES.

(2) THE US IS SIGNIFICANTLY DEPENDENT ON RESIDUAL
FUEL OIL AND, TO A LESSER EXTENT, ON GAS OIL (NO. 2
HEATING OIL) IMPORTS. MOST IMPORTS COME FROM
CARIBBEAN (SOME NON-NATO, I.E., VENEZUELA) REFINERIES.
THUS, THE SUPPLY REALLOCATION BETWEEN NATO COUNTRIES,
AS PER PARAGRAPH 23, WOULD BE RELATIVELY UNIMPORTANT
AS AN EMERGENCY MEASURE INSOFAR AS THE US AND THE
REST OF NATO, EXCLUDING SOME CANADA, ARE CONCERNED.

2. REFERENCE AC/12-DS/77, PARAGRAPH 5:

US REP SHOULD DETERMINE DETAILS REQUIRED FOR PARA 5(4).

B. REPORT ON MILITARY REQUIREMENTS. DOE IS TAKING
STEPS TO OBTAIN DATA NOT NOW BEING SUPPLIED.
(FYI. WE WILL ATTEMPT TO SECURE DATA IN WASHINGTON;
HOWEVER, IF THIS IS NOT FEASIBLE, DOE MAY REQUEST
ASSISTANCE OF USEUCOM AS WAS DONE BY REF C. END FYI.)

AGENDA ITEM II. -- NATO'S DEPENDENCE ON NON-NATO
SOURCES OF OIL SUPPLY.

SINCE THE REVISION OF C-M(75)9 MAY INCLUDE METHO-
DOLOGY AND/OR DATA WHICH MAY NOT JIBE WITH DOE
APPROACH OR FIGURES, DEPARTMENT WOULD APPRECIATE
THAT US REP NOT COMMIT ON SUBSTANCE UNTIL DEPARTMENT
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HAS HAD TIME TO ANALYZE DOCUMENT.

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